

RBI MPC Highlights

Rate hike by 25bps, Stance changed to 'Calibrated Tightening'

October 2026

RBI MPC Oct'26 – Quick Overview

	Earlier (Aug'26)	Latest (Oct'26)
Repo Rate	5.25%	5.5%
Growth projections (FY27)	6.7%	7.1%
Q1	7.0%	7.8% (actual)
Q2	6.4%	7.2%
Q3	6.5%	6.9%
Q4	6.8%	6.8%
Growth Projections (Q1FY28)	7.3%	7.1%
CPI Inflation Projections (FY27)	5.0%	5.2%
Q1	3.9% (actual)	3.9% (actual)
Q2	4.7%	4.9%
Q3	5.9%	6.0%
Q4	5.5%	5.7%
Core Inflation	4.3%	4.4%
CPI Inflation Projections (Q1FY28)	5.3%	5.6%

- In an unanimous decision, the MPC hiked the repo rate by 25 bps to 5.50% (in line with market expectation) and changed the stance to calibrated tightening from neutral. The RBI highlighted that inflation is no longer as benign as last year, warranting a recalibration of the policy rate.

- The RBI revised its inflation forecast higher, with average FY27 CPI forecast increased marginally to 5.2% from 5% earlier and core inflation increased by 10 bps to 4.4%. The revision reflects higher inflation expectations and broadening price pressures. While near-term pressures remain largely supply-side driven, the MPC flagged emerging signs of second-round effects and generalization of price pressures, warranting closer monitoring.

- Growth outlook remains resilient despite geopolitical and weather-related risks, supported by strong domestic demand, robust manufacturing and services activity, healthy credit flows, investment and buoyant exports. Q1FY27 GDP growth at 7.8% came in significantly stronger than expected, with the RBI revising Q2 and Q3 growth estimates higher, while the Q1FY28 estimate has been revised lower. Overall, the growth outlook remains broad-based, with strong capacity utilization, credit growth and infrastructure activity expected to support momentum.

- Overall, policy stance has turned distinctly hawkish, with the shift to calibrated tightening signaling a clear focus on containing inflation risks. With growth remaining supportive, the RBI ruled out any scope for further monetary accommodation, with the policy path likely to remain focused on tightening rates depending on the evolution of inflationary pressures.

Rate Hike Cycle Commenced – Early signs that it could be higher than expected

Facts

- Repo rate hiked by 25bps to 5.5%; stance shifted from neutral to calibrated tightening
- Q1FY27 actual growth significantly stronger than estimate | FY27 growth raised to 7.1% from 6.7% | Growth projections for Q1FY28 revised downwards to 7.1%
- FY27 inflation projected higher at 5.2%, Core inflation forecast increased by 10 bps

Assessment

- **Policy was more hawkish than expected**, with the 25 bps repo rate hike and shift to calibrated tightening reflecting heightened concern around the inflation outlook. The upward revision in FY27 inflation forecast, alongside evidence of **elevated inflation expectations and broadening price pressures**, appears to have reduced the RBI's comfort on inflation. With growth remaining resilient and the RBI explicitly ruling out near-term rate cuts, the policy stance suggests that **further easing is off the table, with future action likely to be either a pause or additional tightening depending on the evolution of inflation and macro scenario**.
- That said, the RBI's own forecasts imply **average inflation of ~5.85% in H1 CY27**, while the repo rate remains at **5.5%**, suggesting the possibility of a **negative real policy rate** while growth is expected to remain above **7%** - keeping the policy bias tilted towards further tightening if inflation pressures persist.
- Global policy rates and bond yields have also moved higher, adding to the broader tightening bias. While the RBI has reiterated that domestic factors will remain the key drivers of policy decisions, higher global yields and tighter financial conditions remain relevant considerations, particularly amid elevated inflation and energy-price risks.
- In the post-policy conference, Governor indicated that the RBI will continue to calibrate liquidity conditions to ensure that the WACR* remains aligned with the repo rate. While system liquidity remains in surplus, the RBI retains flexibility to use OMO sales, FX swaps and other liquidity-management tools as required, suggesting that excess liquidity is unlikely to materially dilute the transmission of the tighter policy stance.

Implication

- Post the announcement, bond yields hardened, with the 10Y yield rising ~5 bps to ~7.27%, while the INR weakened by ~50 paise from ~96.4 to ~96.9/USD.
- **Swap markets suggest another 3-4 rate hikes over the next 12-months and today's policy announcement has hinted at an alignment to these market expectations, as also the magnitude of expected rate hikes. We expect another 2 rate hikes by end FY27, with the possibility of another 1-2 in FY28, that would however depend upon the global rate cycle, the strength of the USD and local inflationary conditions.**
- Consequently, the shorter end of the yield curve is likely to remain elevated, while the longer end too could inch higher.
- From a strategy perspective, we **favour money market and short-term accrual-led roll-down strategies, with a focus on high-quality - i.e target maturity funds and ST/ money-market oriented strategies. Besides, we continue to like Real-asset income strategies (INVits, Reits) and cherry-picked structured credit opportunities**

Risks (to our view)

- ✗ A sharp energy-price shock and/or disorderly rise in global bond yields could accelerate domestic inflation and yield pressures.
- ✗ Sharper-than-expected growth moderation in 2HFY27 could complicate the policy and fiscal trade-off just as inflationary pressures are building.
- ✗ Adverse weather conditions, including El Niño-related risks and uneven monsoon rainfall, could add to food inflation pressures.

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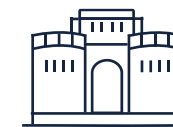
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